

## **Guidelines for the Regulation of Excluded Distribution Services Provided by Energex and Ergon Energy**

In December 2007, the Queensland Competition Authority decided to re-classify services ancillary to the main network services (non-Distribution Use of System (non-DUOS) services) provided by Energex and Ergon Energy as excluded distribution services. A copy of the Final Decision is available on the Authority's website at [www.qca.org.au](http://www.qca.org.au).

The form of regulation that is to apply to excluded distribution services provided by Energex and Ergon Energy was described in Chapter 4 of the Final Decision. These Guidelines provide further detail on how excluded distribution services are to be regulated and are to be read in conjunction with the Final Decision.

### **Pricing**

#### Pricing Principles Statement (PPS)

- A PPS for pricing of excluded distribution services is to be provided to the Authority for approval. This is to be separated from the PPS required for prescribed distribution services.
- Prices for excluded distribution services should be consistent with the following broad pricing principles:
  - prices should be cost-reflective, with costs allocated to the excluded service in accordance with the approved Cost Allocation Methods and Procedures; and
  - prices should be subsidy-free, economically efficient and reflect current industry practices and costs.
- For each financial year, any amendments to the PPS for excluded distribution services must be submitted to the Authority for approval prior to the end of the previous calendar year.
- The PPS must identify each of the individual excluded distribution services that Energex and Ergon Energy propose to offer. Services could be expected to be differentiated on the basis of:
  - the type of service;
  - the time of delivery of the service (e.g. business hours, after hours);
  - the location of delivery; and
  - any other aspects of service delivery that result in different prices.
- The PPS must include a description of the approach used to attribute revenue and costs (including assets) to the excluded distribution services.
- The PPS must indicate how the prices for excluded distribution services are to be calculated.
  - Where the service is a standard fixed price service, the PPS should include an explanation of how the price is to be calculated. The formula should be sufficiently

detailed to enable customers to understand the derivation of the price. For Schedule 4 services, the PPS should note that the service is subject to a legislated price cap as set out in Schedule 4 of the Electricity Industry Code.

- Where the service is non-standard variable price service (e.g. “Price on Application” services), the PPS should provide an explanation of how the (cost-reflective) price is to be calculated and include a formula identifying all the input variables for the individual service and identifying variables that are subject to change. The formula should be sufficiently detailed to enable customers to understand the derivation of their individual price, based on their individual service specification.
- Where individual services are calculated using the same pricing formula, these services may be aggregated under that pricing formula (e.g. the following services: x, y and z are calculated using the following pricing formula...)
- The information provided on the calculation of prices for excluded distribution services should be sufficient to allow an auditor to confirm that prices have been calculated according to the PPS.

#### Price approval process

- Proposed prices for excluded distribution services are to be submitted at least 90 days before the beginning of the financial year in which they are to apply. Prices are to be the maximum prices to be charged.
- Distribution Network Service Providers (DNSPs) will be required to provide prices, spreadsheets, explanatory material, etc. demonstrating that the proposed prices are consistent with the pricing principles (i.e. actually applying the approved formula). In addition, an example of the application of the formula and the resulting price should be provided for the most common configurations of the individual service (e.g. moving a power pole 10 metres requires two workmen for three hours each, one heavy vehicle for two hours...)
- Depending on the level of supporting information, the Authority may choose to have a DNSP’s pricing process audited to confirm compliance with the PPS.
- Energex and Ergon Energy will be required to publish approved prices for standard excluded distribution services as well as the examples of the most common configurations for non-standard services by 31 May each year.
- The Authority will endeavour to approve prices by 25 May each year. The Authority will only approve proposed prices if they comply with the approved PPS. If proposed prices are not approved, the previously approved prices will continue to apply until revised prices are approved by the Authority. Customers should be given notice of forthcoming price changes prior to their implementation. One month notice would be reasonable.
- Any change to an approved price for an excluded distribution service within the regulatory year will have to be approved by the Authority prior to the new price being implemented.

### **Regulatory Reporting**

- Information on excluded distribution services should be included as part of the current Regulatory Reporting Statements for prescribed services.
- Excluded distribution services should be reported at the aggregate level in the schedules in the Regulatory Reporting Statements, as currently provided for by the “Excluded distribution services” column.
- Each individual excluded service is to have a separate “Statement of Financial Returns” and “Statement of Financial Position”, as per the current treatment of non-DUOS services. The individual services may be aggregated where there is a demonstrated rationale for doing so.
- The Regulatory Reporting Statements should provide the number of each individual service provided during the year, the Authority should then be able to determine the average price and average cost for each service. These can then be compared against the prices approved for the year and, for variable price services, against the example prices provided at the start of the year.
- The Authority will report summary information in its annual Financial and Service Quality Reports.
- Due to the timing of the decision to exclude these services from the revenue cap form of regulation, an interim approach may need to be developed in terms of the information provided for the 2007-08 year. Information may not have been collected for these services at a disaggregated level for the 2007-08 period. Where necessary, Energex and Ergon Energy should suggest a reasonable approach for the presentation of this information for 2007-08. This should provide for the attribution of all revenue and costs, including assets, to the excluded distribution services. The approaches proposed by Energex and Ergon Energy for 2007-08 reporting must be submitted to the Authority by 31 March 2008.